



Urbanization with Chinese Characteristics? China's Gamble for Modernization

Citation

Looney, Kristen, and Meg Rithmire. "Urbanization with Chinese Characteristics? China's Gamble for Modernization." Harvard Business School Working Paper, No. 16-083, January 2016.

Permanent link

<http://nrs.harvard.edu/urn-3:HUL.InstRepos:25525861>

Terms of Use

This article was downloaded from Harvard University's DASH repository, and is made available under the terms and conditions applicable to Open Access Policy Articles, as set forth at <http://nrs.harvard.edu/urn-3:HUL.InstRepos:dash.current.terms-of-use#OAP>

Share Your Story

The Harvard community has made this article openly available.
Please share how this access benefits you. [Submit a story](#).

[Accessibility](#)

Urbanization with Chinese Characteristics? China's Gamble for Modernization

Kristen Looney
Meg Rithmire

Working Paper 16-083



Urbanization with Chinese Characteristics? China's Gamble for Modernization

Kristen Looney
Georgetown University

Meg Rithmire
Harvard Business School

Working Paper 16-083

Copyright © 2016 by Kristen Looney and Meg Rithmire

Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only. It may not be reproduced without permission of the copyright holder. Copies of working papers are available from the author.

Urbanization with Chinese Characteristics? China's Gamble for Modernization

Kristen Looney and Meg Rithmire¹

Urban China's latest man-made disaster struck Shenzhen, a city of over 20 million people and one of the country's major economic hubs, on December 20, 2015. A massive hillside pile of construction debris, illegally dumped with the complicity of local officials, collapsed in the city's Guangming New District, burying 33 buildings and scores of people.² After the spectacular explosion in Tianjin in August and the seeming barrage of reports of urban infrastructure failures throughout the country, one begins to wonder if China's urbanization demands are dramatically outpacing the country's ability to expand urban areas. On the other hand, reports of "ghost cities," entire cities in the middle of the desert or large suburban developments devoid of people, inspire fears that China's supply of urban areas and infrastructure is outpacing demand, fueled by unsustainable debt and over-investment.³

Are Chinese cities the engines of growth for the Chinese and global economy or are they ticking time bombs of debt and over-investment? In a sense, they are both. Urbanization in China has proceeded this far in spite of serious institutional barriers, but those barriers have created significant problems, including urban sprawl, conflict over land rights, local government debt, and substantial inequality. A proposed set of reforms aims to catalyze rapid urbanization while eliminating the negative economic, environmental, and social costs of the previous model.

The Chinese Communist Party (the CCP) sees this "New-Style Urbanization" and the creation of a large and secure middle class as critical to its shift from an investment and export-driven economy to one sustained by domestic demand. Instead of relying on markets and voluntary migration, the CCP aims to steer the process through its control of land, labor, and capital. If it succeeds, China will urbanize hundreds of millions of people in the next decades without experiencing the social dislocation and political agitation that urbanization historically brings. If it fails, the risks range from simple economic stagnation to political and social upheaval.

¹ Kristen Looney is an Assistant Professor at the School of Foreign Service at Georgetown University. She is completing a book on rural modernization campaigns in China, Taiwan, and Korea. Meg Rithmire is an Assistant Professor and Hellman Faculty Fellow at Harvard Business School. Her book, *Land Bargains and Chinese Capitalism*, published in October by Cambridge University Press, is about land politics and urbanization in national and subnational strategies of growth in China.

² Chris Buckley and Austin Ramzy. "Shenzhen, Embodying China's Growth, Falls Risk to it." *New York Times*. December 22, 2015.
<http://www.nytimes.com/2015/12/22/world/asia/china-landslide-shenzhen.html?smid=fb-nytimes&smtyp=cur&r=1>.

³ Christian Sorace and William Hurst. "China's Phantom Urbanization and the Pathology of Ghost Cities." *Journal of Contemporary Asia*. Forthcoming.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2557626

Under-Urbanized China?

Although it has achieved remarkable urbanization, China is still under-urbanized relative to its level of industrialization. Unlike most countries that the World Bank classifies as “upper middle income,” barely a majority of Chinese residents live in cities. Yet at the same time, China’s industrial sector accounts for well over 40 percent of the country’s GDP.⁴ This “industrialization without urbanization” is a unique product of institutions that limit the free movement of labor, land, and capital. To understand these institutions—and how they fit together—is to understand the past, present, and future of urbanization in China.

The most notorious of these institutions is the household registration system, or *hukou*. Established in 1958, the *hukou* system divides the population between rural and urban and attaches each person’s citizenship to a specific locale. Traditionally, those with urban *hukou* have been entitled to a suite of state-provided benefits denied to rural *hukou* holders, including social insurance, housing, grain rations, and public services. Following the introduction of market reforms in the late 1970s, urban labor markets gradually opened up to rural residents, but the urban public goods regime remained out of reach. Still, the lack of access to public goods has not stopped rural residents from migrating to urban centers by the hundreds of millions. Presently, about 17 percent of China’s population, or 230 million people, belong to the “floating population” that lives in cities but does not possess a local *hukou*.⁵ Despite frequent declarations that the CCP intends to dismantle the system, reforms have proceeded around the edges of the institution while preserving its basic form. By preventing the rural population from settling permanently in the cities, the *hukou* system has created what some scholars have called a rural-urban “apartheid.”⁶

Intimately related, China’s system of property rights over land also maintains a sharp distinction between rural and urban. In the 1950s, the Constitution enshrined the principle of public land ownership: land in urban China is owned by the “state,” and land in rural China is owned by the “collective,” or all members of the village. Today, China retains public *ownership* of land while permitting private *use* in the forms of household farming and urban land leasing. This system of property rights has given rise to increasing amounts of conflict over the last two decades.

Private users pay lease fees directly to local governments for periods of 40 to 70 years, up front in a lump sum. Local governments, ever desirous of more land to generate fiscal revenues, convert the status of land from rural to urban (a right only they can exercise). It is estimated that land leasing comprises 46 percent of local government

⁴ Authors’ calculations using data accessed from World Bank and Economic Intelligence Unit.

⁵ Kam Wing Chan. “Achieving Comprehensive Hukou Reform in China.” Paulson Policy Memorandum. Paulson Institute. December 2014. http://www.paulsoninstitute.org/wp-content/uploads/2015/04/PPM_Hukou_Cheng_English.pdf

⁶ For example, Peter Alexander and Anita Chan. “Does China have an Apartheid Pass System?” *Journal of Ethnic and Migration Studies*. Vol. 30 No. 4 (July 2004).

revenue nationwide, and up to 70 percent in some localities.⁷ In pursuit of greater revenue, local governments have been willing to risk social unrest. As cities have expanded dramatically, upwards of 88 million peasants have become landless and rural land expropriation has become the top source of state-society conflict, accounting for about 65 percent of “mass incidents” in rural areas each year.⁸

To curb the seemingly limitless expansion of cities, in 2006 the Ministry of Land Resources established a “red line” of 297 million acres (120 million hectares) of protected farmland and began allocating annual quotas to local governments for land conversion.⁹ Still, urban land has expanded nearly twice as fast as the urban population, meaning the growth in urban land far outstrips its use.¹⁰ Meanwhile, rural land use is also inefficient: because farmers cannot liquidate their holdings of collective land if they migrate to the cities, the countryside is peppered with vacant structures and untilled fields. This hollowing out of the countryside has elevated concerns about food security and raised questions about how China might protect the land rights of villagers (and migrants) while also shifting towards industrial agriculture.

In addition to urban sprawl, rural decline, and conflict over property rights, another disturbing outcome of China’s land institutions is over-investment in urban construction. Since 2009, investment has held steady at 44 percent of China’s GDP (compared to 13-16 percent in the United States), and has been as high as 60 percent in some provinces and municipalities.¹¹ The imperative to acquire land for development and generate economic growth through investment is visible in the extreme in so-called ghost cities, areas of urban expansion with all the makings of a modern city save the residents.

The rural-urban dichotomies in labor, land and, lastly, capital have been mutually reinforcing. The savings rate in China is incredibly high—over 50 percent of GDP in the last several years—and has grown as China has grown.¹² The high savings rate begs two questions: first, why do Chinese households save so much and, second, where do the savings go? A complete answer to the savings puzzle has eluded academics and policy-makers in China and beyond, but several factors are clearly important. First, the insecurity of migration in China compels savings. Migrants have no access to a social safety net and are all but barred from investment in urban areas. Instead, they save

⁷ Landesa, <http://www.landesa.org/wp-content/uploads/2011/02/Landesa-17-province-survey.pdf>.

⁸ Sally Sargeson. “Violence as development: Land expropriation and China’s urbanization.” *Journal of Peasant Studies*. Vol. 40, No. 6, pp.1063-1085. 2013; 于建嵘:《圈地是城市对农村掠夺》,《新京报》2010年11月5日,第A21版。

⁹ For more on these, see Yuan Xiao. “Making Land Fly: The Institutionalization of China’s Land Quota Markets and Its Implications for Urbanization, Property Rights, and Intergovernmental Politics.” PhD Dissertation, MIT. 2014.

¹⁰ The specific figure is 1.86 percent faster, meaning that the rate of urban expansion is 1.86 times rate of urban population expansion. 李祺。《后土地财政的代新型城镇化融资代偿机制在考虑》. 理论学科。 No. 6, Ser. No. 256. June 2015.

¹¹ Data from CEIC. For example, Chongqing’s Investment to GDP ratio was 60% in 2010 and 2011.

¹² Naughton, Barry. 2014. “China’s Economy: Complacency, Crisis & the Challenge of Reform.” *Daedalus* 143(2):14-25.

earnings and remit them to the countryside. Second, peasants and urbanites alike face uncertainties of aging and eldercare, a major depressor of consumption in many societies.

The question of where savings go has profound global implications. Historically, capital controls have prevented Chinese households from investing abroad (the abilities of wealthy and well-connected families to funnel money into foreign markets notwithstanding). Deposit rates in China have also been low, a few percentage points below lending rates, and equity markets in China remain underdeveloped. Firms rely on banks and retained earnings for investment credit, and households are wary of stock markets because of their short and volatile history. It is estimated that only 7 to 11 percent of Chinese households invest in equities.¹³ The recent turbulence in stock markets is best interpreted as a drama starring and affecting primarily very rich individuals alongside millions of small-scale, retail investors who see stock markets as something akin to casinos.

Most Chinese households that can afford it invest in real estate, everything from their own, modest urban apartments to second and third investment properties. This same pattern holds in the countryside, where the lack of alternatives compels villagers to invest in housing despite the absence of formal housing markets (legally, village homes are private but not marketable properties). Real estate investment has steadily risen as a percent of GDP since the 1990s. Beijing, as a result, has been caught in a delicate dance of ensuring that property values appreciate — so as to protect the value of household savings — but not so quickly that bubbles develop. Put simply, Chinese household savings are trapped domestically, and Beijing can push them into real estate or equity markets, but it risks bubbles and distortions in either direction.

The other major constraint on China's fiscal health is local government debt. Because of their limited ability to levy taxes or issue bonds, local governments have collectively borrowed the equivalent of the U.K.'s GDP, mostly using land as collateral, to meet their growing expenses. Given the measures Beijing's leaders were willing to take to halt the stock market decline this summer, including persecuting journalists and forcing state firms to buy stock, it is safe to assume they are willing to do whatever is necessary to keep property markets afloat. Collapse in real estate risks not only the solvency of Chinese households, but the solvency of the state itself.

Despite the various institutional barriers limiting urbanization in China, it has proceeded on a scale unprecedented in human history and facilitated rapid economic growth through largely informal processes: migrant labor has made export-oriented manufacturing possible, duality in land ownership has kept local governments afloat, and household savings have financed urban growth. But, facing low consumption, bloated investment, inefficiencies in agriculture, and distortions in land use, that growth model seems to have run its natural course. Beijing sees urbanization as the solution to its problems, but not in the same form it has taken in China so far and certainly not in the haphazard, socially contentious and politically transformative form that it takes in most developing countries.

¹³ For example, see <http://fortune.com/2015/09/02/heres-what-you-may-not-know-about-the-chinese-stock-market/> and <http://www.newyorker.com/news/daily-comment/the-real-risk-behind-chinas-stock-market-drama>.

New-Style Urbanization

In anticipation of the leadership change in 2012 and over the first few years of the Xi Jinping – Li Keqiang administration, official rhetoric alighted on “New-Style Urbanization” as the new, comprehensive strategy for economic growth and development. This rhetoric coalesced into the “National New-Style Urbanization Plan, 2014-2020,” issued in March of 2014. Importantly, the term used for this new form of urbanization is better translated as “townification” (as opposed to the more commonly used “citification”). The term is intended to connote substantive changes in the urbanization process. Rather than a concentrated underclass in megacities, new urbanites will be the new middle class in smaller cities. Rather than land-driven, the new urbanization will be “people-centered.” It will also be “intensive and functional” in its land use and “green and low-carbon” in its environmental impact. Urbanization is actually but one of four dimensions of the new strategy. The other three are industrialization, digitization, and agricultural modernization.

The goals of the plan are threefold. First, the plan is clearly articulated as a strategy for economic growth and reform. As early as the late 1990s, but most acutely since the global financial crisis, China has been in search of a way to stimulate domestic demand, and urbanization is said to be a “key driver” in that process. Secure and permanent middle class residents buy homes, durable goods to fill those homes, and so forth. Turning migrants into permanent urban residents removes a critical source of uncertainty that restrains consumption for 17 percent of China’s current population. In addition to stimulating domestic demand, the plan intends for urbanization to accelerate the “rationalization” of industry by promoting growth in the service sector. Noting that China’s service sector lags far behind developed countries and other middle-income countries, the plan argues services will become the main source of economic and employment growth in China’s cities. If successful, the plan will indeed be a departure from China’s old investment-driven growth strategy. The Development Research Center of the State Council – a Chinese government think tank - and the World Bank project consumption should increase from 46.5 percent of GDP in 2010 to 66.5 percent by 2030, while investment should decrease from 48.8 percent to 30.9 percent (see table).

	2010	2012	2020: Plan Projection	2030: World Bank / DRC projection	2030 projection without reforms
Urban Residents (% of population)		52.6	60	70	66
Urban Permanent Residents (% of population)		35.3	45		
Agriculture Labor Force (% of labor force)	38			11.6	17.1
GDP growth (Average over last 5 years)	8.5			5.2	4.9
Consumption: GDP	46.5			66.5	62
Investment: GDP	48.8			30.9	35.5

Source: Shaded columns from Urban China: Toward Efficient, Inclusive, and Sustainable Urbanization. DRC/ WB Report; unshaded columns from National New-Style Urbanization Plan.

The second goal of New-Style Urbanization is the transformation of the rural sector. Since 2004, every annual “Number One Central Document,” which signals Beijing’s top policy objectives, has pertained to what is commonly known as the “three rural problems” of peasants, villages and agriculture. The Hu Jintao administration’s rural development strategy, known as “Building a New Socialist Countryside,” marked an important shift from exploiting the rural sector to modernizing and protecting it.¹⁴ However, by most measures agriculture remains highly inefficient. The average farm size in China is less than 1 hectare (2.47 acres), and landholdings are often scattered, making it difficult for individual households, much less agribusinesses, to scale up production. Over one-third of China’s labor force is still employed in agriculture. And while some observers point to rising urban wages as evidence that China has run out of surplus labor, in reality rural laborers are just stuck in the countryside where they work on average only 150 days per year.¹⁵ The Xi administration’s urbanization agenda aims to reduce the size of the agricultural labor force from 38 percent in 2010 to 11.6 percent by 2030. Instead of peasants, those who remain in the countryside will be “professional farmers” linked to fully commercialized, modern chains of production.

The last, and perhaps most important, goal of New-Style Urbanization is not exactly articulated in the plan but is clearly paramount for China’s leaders: to manage urbanization without experiencing destabilizing political change. Jeremy Wallace, a Cornell University political scientist, argues that the regime’s ability to limit urbanization partially explains its longevity. While regimes throughout the Arab world have fallen to popular mobilization, the CCP has steadily prevented what it calls the “Latin Americanization” of its cities—finding them overwhelmed by new and informal migrants with insatiable social and political demands.¹⁶ Indeed, urbanization historically has been a process that carries great potential for instability. From the enclosures movement in England to the rise of megacities in the contemporary developing world, turning agricultural economies into industrial ones and farmers into urbanites has frequently given rise to political agitation and social movements that have ended in revolutions and regime changes. Mid-20th century social scientists imagined urbanization, along with industrialization and agricultural modernization, as the exact social processes that would lead to democratization. The late Samuel Huntington saw mass urbanization as a critical political moment: either new urban groups’ political aspirations would be integrated into institutions or they would overwhelm those institutions, leading to unrest, opposition, and violence.¹⁷

¹⁴ Looney, Kristen E. 2015. “China’s Campaign to Build a New Socialist Countryside: Village Modernization, Peasant Councils, and the Ganzhou Model of Rural Development.” *The China Quarterly* 224:909-32.

¹⁵ Xin Meng. “Harnessing China’s Untapped Labor Supply.” Paulson Policy Memorandum. Paulson Institute. February 2015. http://www.paulsoninstitute.org/wp-content/uploads/2015/04/PPM_Labor-Supply_Xin-Meng_English.pdf

¹⁶ Wallace, Jeremy L. *Cities and Stability : Urbanization, Redistribution, & Regime Survival in China*.

¹⁷ Huntington, *Political Order in Changing Societies*. New Haven, CT: Yale University Press, 1968. Pp. 72-78.

Under the new plan, the CCP intends to use precisely the institutions designed as barriers to urbanization as levers to control the direction, pace, and volume of migration to urban areas. Building urban infrastructure and housing before the urbanites arrive is one part of this strategy. What look like ghost cities today could be thriving urban centers in a few years. Not since the population transfers associated with Stalin's mass industrialization drive has a state attempted to manage urbanization on this scale. The stakes for this "urbanization with Chinese characteristics," as it is called in China, are nothing short of the economic health and social stability of the country.

The Reform Agenda

If the plan is heavy on goals with tremendous stakes, it is light on policy specifics. That mode of policymaking is nothing new in China, where Beijing typically lays out broad objectives and leaves policy details to be worked out in time.¹⁸ That sometimes works out for incredible good, as local level best practices are scaled up to the national level. Other times, local officials distort national policy goals for their own short-term gains.¹⁹ In any case, we can look to current local and experimental practices as well as discussions in Chinese academic and policy circles for clues about how the policy is being implemented.

In general, the plan aims for massive urbanization through the extension of formal permanent residency to current and future migrants in small cities and towns rather than large urban centers. The projected scale of urbanization is unparalleled: the official plan calls for the absorption of 100 million new urban residents and the integration of 140 million current migrants by 2020. If reforms succeed, hundreds of millions more will be urbanized by 2030. The plan is in keeping with the CCP's longstanding goal of preventing urban concentration. But even more explicitly than before, it aims to channel migrants into small cities rather than discourage them altogether. As usual, the *hukou* will be the mechanism of control. Most smaller cities and towns with populations under 1 million will experience full liberalization of residency; medium-sized cities will carry out partial liberalization according to specific circumstances; and large cities with populations greater than 5 million will continue to be strictly controlled.

The primary method of inducing migration is linking changes in property rights over land with changes in household registration status. Beginning in 2007 in the southwestern cities of Chongqing and Chengdu, new experimental programs were launched that allowed migrants to acquire urban *hukou* and trade their rural landholdings on quasi-markets. These programs, versions of which can now be found in 29 of 31 provinces, were the first in China to allow rural residents to initiate the exchange of their land rights, and they work to simultaneously induce migration and rationalize land use.

¹⁸ See Heilmann, Sebastian. 2008. "Policy Experimentation in China's Economic Rise." *Studies in Comparative International Development* 43(1):1-26. doi: 10.1007/s12116-007-9014-4.

¹⁹ See, for example, Sorace, Christian. 2015. "The Communist Party's Miracle? The Alchemy of Turning Post-Disaster Reconstruction into Great Leap Development." *Comparative Politics* 47(4):479-98.

Take Chongqing's "Land Certificate Exchange" as an example. If a rural dweller wants to migrate, she may sell the development rights for her homestead (i.e. not her share of collective farmland, but her own dwelling land) on the certificate exchange, earning compensation and an urban *hukou* in return. To be sure, few developers are eager to acquire isolated pieces of land in the remote countryside. Instead, the certificate exchange allows them to buy rights to develop the equivalent area of (rural) land closer to the city center. The homestead is then converted into arable land, so that Chongqing's overall quotas for land use are effectively unchanged. The New-Style Urbanization plan calls for wide adoption of this kind of tradable homestead right.

Besides the *hukou*-land exchanges, another means of attracting migrants is through the expansion of public and affordable housing in Chinese cities. The stock of rental housing in urban China is small, and migrants have traditionally turned to employer-sponsored dormitories or more informal sources of housing, such as makeshift structures and basement apartments in "urban villages."²⁰ If New-Style Urbanization succeeds, it will establish affordable, rent-to-own housing reserved specifically for migrants. Again, a program in Chongqing is instructive. As land certificate exchanges induced migration, the city built enormous public housing compounds to accommodate the newcomers. One of the largest, built on the outskirts of the city, housed 30,000 families in 2012 and was planned for 80,000.²¹ Although the number of affordable housing programs has expanded greatly in recent years, it remains difficult for Beijing to realize its lofty goals, primarily because the local actors charged with implementing this policy stand to gain financially from using land for higher-end housing and commercial development. Instead of mandating that local governments provide housing, the new reforms encourage private and public partnerships, such as reserving some space in all residential developments for low-income housing.

Lastly, in the effort to formalize migration, reforms to social welfare systems are critical. How will Chinese cities absorb hundreds of millions of new claimants to urban public goods and services, including pensions, social insurance, education and healthcare? Herein lies a major contradiction in the policy: migrants are attracted to medium and large cities where jobs and services tend to be better, yet the plan seeks to expand urbanization in small cities. Success, then, would require major reforms to existing social welfare systems, the details of which are the least clear in any policy statements. Senior officials have discussed the need to "de-link" household registration and access to benefits, i.e. by creating a suite of benefits to which each Chinese citizen would be entitled no matter where she lives or moves. Such a plan, which seems in keeping with the ideas of Finance Minister Lou Jiwei, would constitute an incredible centralization of welfare and service provision in China.

China's Urban Gamble: The Risks

If the Chinese Communist Party has its way in the coming decades, it will manage to urbanize hundreds of millions of people, transform agriculture, and sustain economic

²⁰ Youqing Huang and Chengdong Yi. "Invisible Migrant Enclaves in Chinese Cities: Underground Living in Beijing, China." *Urban Studies*. Vol 5, No. 15. (2015)

²¹ 民心佳园. Meg Rithmire visit: July 2012.

growth — all without political instability. This exercise in massive state-engineered urbanization, however, carries great risks, including social dislocation, concentrated poverty, and misguided investments.

In the countryside, the plan risks provoking farmers' ire through forced relocations and dispossessions. So far, the new land exchange markets have benefitted only a small minority of the rural population, owing to their uneven implementation and local government interference.²² In fact, the government and corporate farm interests stand to gain the most from the exchange markets, since the system of *hukou*-based land rights restricts rural land use to village members. As sociologists Joel Andreas and Shaohua Zhan have recently noted, by eroding this system the reforms may actually serve as "instruments of rural displacement."²³ Furthermore, village renovation programs, which under Hu Jintao were intended to upgrade basic infrastructure, have recently come to mean the demolition and reconstruction of entire villages. Equipped with apartment-style housing, the new villages occupy less land than the old ones, allowing the government to transfer "freed up" land for urban use. This often occurs without villagers' knowledge and certainly without proper compensation or change in *hukou* status. New-Style Urbanization, despite rhetoric to the contrary, thus perpetuates a view of the countryside that is still deeply rooted in urban bias: applying industrial principles to agriculture and urban models of residential life to villages. One does not have to look hard to find stories of villagers being forced to "move upstairs," give up their livestock and vegetable gardens, and in some cases quit farming altogether.²⁴

Even if farmers are moved out of the countryside and into the cities without significant social unrest, there remain questions about the risks of concentrated poverty in urban centers. Anyone familiar with the fraught history of American and European housing projects would feel anxious about plans for massive, concentrated, subsidized housing.²⁵ In all likelihood, changing migrants' *hukou* status will be the easiest part of what promises to be a very difficult process of social and economic integration. And existing patterns of rural-urban inequality will be reproduced within cities at the neighborhood level. Many of the new farmers-turned-urbanites, faced with age and skill related barriers to employment, will have to find work in the informal economy. The current reforms, in trying to move away from the old model of urbanizing land without people, may be creating a new kind of problem—urbanizing people without jobs.

How will China finance its urbanization plans? Chinese academics and think tanks have estimated that the services and infrastructure necessary for urbanizing

²² For more on the problems with quota markets, see Yuan Xiao and Jinhua Zhao. "Fixing China's Distorted Land Quota System." Paulson Policy Memorandum. Paulson Institute. March 2015. http://www.paulsoninstitute.org/wp-content/uploads/2015/04/PPM_Land-Quotas_Xiao-and-Zhao_English.pdf.

²³ Joel Andreas and Shaohua Zhan. "Hukou and land: Market reform and rural displacement in China. *Journal of Peasant Studies*. 2015, quote p. 3.

²⁴ See Ong, Lynette H. 2014. "State-Led Urbanization in China: Skyscrapers, Land Revenue and "Concentrated Villages"." *The China Quarterly* 217:162-79.

²⁵ William Julius Wilson. *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*. Chicago: The University of Chicago Press, 1983.

hundreds of millions by 2030 could cost between 40 and 60 trillion RMB.²⁶ One of the greatest risks is that New-Style Urbanization is just like the old in terms of financing: relying on local government debt-financed investment. While land-driven debt is pervasive throughout urban China, it tends to be greater in smaller, inland cities that have limited economic bases and few connections to higher-level politicians who can supply funds.²⁷ These, of course, are the exact cities that are expected to incorporate the new urbanites. The plan does call for tying fiscal transfers to numbers of new urbanites and for reducing reliance on land revenues, but more specific and substantial public finance reforms would be required to ensure that urbanization is securely financed. In the short term, this means more central fiscal support for expanding cities; in the medium term, allowing municipal governments to issue their own bonds; and in the long term, establishing a property tax that would give urban governments sustainable and predictable revenue streams.

In 2015, China indeed expanded the municipal bond market substantially, approving 2.6 trillion RMB in bonds. Instead of new debt, the majority of bonds represented debt restructured from backdoor “local government financing vehicles.”²⁸ However, this effort to make government financing more transparent appears to be failing: after some municipal bond auctions were undersubscribed, local governments once again started using backdoor financing platforms to get easier access to funds.²⁹ In effect, the effort to restrain shadow lending and expand the bond market amounts to one step forward, one step back. Many within and outside of China have called for property taxes as a solution to urban fiscal woes, but this would require comprehensive knowledge about property ownership, something party-state insiders have long resisted for fear that their own assets would be declared. Industry, however, seems in favor of such a tax. Zhang Xin of SOHO, one of China’s largest developers, has spoken publicly about the need for a property tax to support local governments and reduce distortions in the real estate market.³⁰

Even casual travelers to China now remark on bus stations to nowhere and large residential compounds with no lights on at night. The CCP’s approach to urbanization really is “If you build it, they will come.” The levels of under-urbanization and professed state support for urban expansion give reason to think that, in fact, these bus stations and residential compounds may be teeming with urban life in a few years. The risk is that the central and local arms of the state, rather than markets, will determine which cities grow

²⁶李祺 (Li Qi)。《后土地财政的代新型城镇化融资代偿机制在考虑》(Considering Some Mechanisms for Finance and Compensation for New Urbanization after the era of Land Finance). 理论学科 (*Theory*)。 No. 6, Ser. No. 256. June 2015. Different estimates from CDRF, China Development Bank, etc.

²⁷ You-tien Hsing. “Urbanization of the Local State in China.” Working paper.

²⁸ On these, see Shih, Victor C. 2010. “Local Government Debt: Big Rock-Candy Mountain.” *China Economic Quarterly* 14(2):26-32.

²⁹ Nathaniel Taplan. “China leaves back door ajar in municipal bond market.” Reuters. August 17, 2015. <http://uk.reuters.com/article/2015/08/16/uk-china-economy-lgfv-idUKKCN0QL0V320150816>

³⁰ Leslie Shaffer. “Why China Needs a National Property Tax.” March 6, 2014. <http://www.cnbc.com/2014/03/06/why-china-needs-a-national-property-tax.html>.

and in what direction. If local economic activity does not also follow the construction, migrants will not be attracted to these areas and they might remain ghost cities. Clearly, the CCP has decided that the risks of these bad investments are more palatable than the consequences of uncontrolled and unmanaged urbanization.

Perhaps the biggest risk of all is that nothing happens. From the current vantage point, that possibility is real. Despite intense discussion of New-Style Urbanization and the policy clearly being a centerpiece of the Xi-Li administration, little progress has been made on reforms in the last three years. Xi Jinping's political priority has most obviously been rooting out corruption in the Party itself, and the urbanization plan and economic reforms, largely seen as the projects of Li Keqiang, have taken a back seat. One optimistic interpretation of Xi's efforts is that serious reform requires a level of Party discipline impossible without the anti-corruption efforts, and the institutional reforms will follow the anti-corruption campaign. Another view is that the Party itself has become so mired in internal strife that the new leadership is incapable of realizing even its most central ambitions.

China's Urban Moment

The scale of China's urban ambitions has prompted comparisons with other societies at moments of incredible transformation. In particular, proposed changes in land and labor institutions have begged the question of whether this is China's "enclosures" moment, referencing the process of privatizing previously common land in England that began in the 18th century. The Enclosure Acts forced landless rural dwellers to migrate to cities, where they became the industrial working class and, eventually, agitators for political representation and economic redistribution.

The social and political consequences of the enclosures are precisely what China is trying to avoid. The proposals for urbanization and economic transformation are not a radical departure from the institutions that have structured Chinese society for the last 30 years. Instead of eliminating the walls between village and city, the reforms would allow land, people, and capital to more formally traverse the rural-urban boundary and attempt state control of the process. In all of the varied interpretations of these reforms, one should not mistake them for privatization of land.

If the correct analogy is not to the enclosures, a more dire scenario is that it could resemble the Stalinist population movements and China's own Great Leap Forward. Historically, massive state attempts at engineering social processes have proven more disastrous than ad hoc urbanization. So far, New-Style Urbanization reforms have not been accompanied by the kind of politicization and mobilization that precludes dissent and silences policy feedback. If Chinese leaders are to succeed in producing a modern, urbanized society without the discipline of markets, the best hope is that they include the participation of rural and urban citizens, whose voices may be the bellwether of China's urban future.